

United States Senate

WASHINGTON, DC 20510

April 5, 2011

The Honorable Joshua Gotbaum
Director
Pension Benefit Guaranty Corporation
1200 K Street, NW, 12th Floor
Washington, DC 20005

Dear Director Gotbaum,

We're writing today to address concerns raised in a recent report regarding PBGC's use and oversight of contractors. Last week, the Inspector General for the PBGC released a report entitled "PBGC's Plan Asset Audit of National Steel Pension Plans Was Seriously Flawed." The report, which we requested along with former Representative Oberstar, examined the PBGC's handling of National Steel pension plans covering 35,000 workers, including over 1,000 Minnesotans.

As you may know, National Steel Pellet Company filed for bankruptcy in 2002, and seven of its pension plans were subsequently terminated and turned over to PBGC in 2003. As part of assuming responsibility for these plans, one of PBGC's primary tasks was to determine the fair market value of plan assets to ensure that beneficiaries received the maximum amount to which they were entitled. The Inspector General's (IG) report showed that this audit process, which PBGC contracted out to Integrated Management Resources Group, Inc., (IMRG) contained "obvious and material errors and omissions" and failed to meet government auditing standards. The IG's report characterized PBGC's oversight of IMRG's audit as inadequate and ineffective.

While PBGC did not retain records necessary to determine the extent of their contracting relationship, IMRG indicates that it has completed over a thousand audits for PBGC. Given IMRG's performance in its audit of the National Steel Pension plans, this extensive relationship with the PBGC is troubling. The IG's report lists many obvious and serious errors committed by IMRG—reporting plan assets twice on the same page but in different amounts, reversing the asset values for the hourly and the salaried plans, failing to record or compute annuities purchased by the plan, failing to verify major monetary transfers out of the plans, and improperly calculating accrued interest, among others. As a result of these errors, the report states that "neither PBGC nor the plan beneficiaries has reasonable assurance that plan assets have been identified and correctly valued and allocated."

Further, this report is not the first time that IMRG's competence has been questioned. The current president of IMRG, Ms. Myrna Cooks, was previously Vice President and manager at Office Specialists, Inc. In 2000, a GAO official testified before two Senate committees about the relationship between PBGC and Office Specialists and IMRG. The GAO official testified that in 1997, PBGC identified unacceptable problems with Office Specialists' management of an Atlanta facility, citing high employee turnover affecting work productivity and quality, a failure

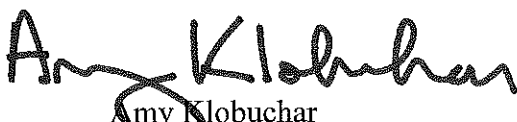
to issue determination letters in a timely manner, and mail-processing and telephone backlogs. PBGC apparently disregarded these performance problems and continued awarding contracts to Office Specialists and IMRG. GAO concluded that PBGC officials demonstrated a lack of impartiality in awarding these contracts, and the decisions may have been influenced by personal relationships.

The IG's report states that PBGC "placed tremendous reliance on [IMRG]" and is consequently experiencing "serious and costly problems with the quality and utility" of the services it paid for. If the PBGC had actually monitored and overseen IMRG's audit, many of IMRG's errors could have been caught and corrected. PBGC's failure to properly oversee the original audit now necessitates the commission of another audit, at significant expense to PBGC. It is our understanding that despite demonstrating repeated poor performance, PBGC continues to contract with IMRG and grant it significant responsibilities. In the case of National Steel, IMRG's mistakes may have compromised the integrity of its plan benefits.

We respectfully request that PBGC provide an explanation of its contracting procedures and safeguards and defend the continued utilization of a contractor with such a questionable and problematic track record. Specifically, please provide information on PBGC's current oversight procedures regarding IMRG's operation of field offices in Richmond Heights, OH, Pueblo, CO, and Corapolis, PA. Please also provide information on PBGC's debarment and suspension policies and procedures, and whether IMRG's actions in this and other cases warrant further consideration for possible suspension or debarment from further contracting. Furthermore, we expect that PBGC will implement procedures to hold accountable the relevant agency management officials responsible for the administration and oversight of these contracts.

We appreciate your attention to this important matter and look forward to working with you going forward.

Sincerely,


Amy Klobuchar
United States Senator


Al Franken
United States Senator

cc: PBGC Board of Directors